

Message Text

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ACTION EUR-12

INFO OCT-01 IO-14 ISO-00 EB-07 SP-02 USIA-15 AID-05
NSC-05 EPG-02 TRSE-00 SS-15 STR-04 OMB-01 CEA-01
CIAE-00 COME-00 FRB-01 INR-07 NSAE-00 XMB-04
OPIC-06 LAB-04 SIL-01 L-03 H-02 PA-02 PRS-01
/115 W

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R 140709Z JUN 77

FM AMEMBASSY BERN

TO SECSTATE WASHDC 4492

INFO AMEMBASSY BONN

AMEMBASSY BRUSSELS

USMISSION GENEVA

AMEMBASSY LONDON

AMEMBASSY PARIS

AMEMBASSY ROME

AMEMBASSY VIENNA

AMCONSUL ZURICH

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USEEC, USMTN ALSO FOR MISSION, USOECD ALSO FOR EMBASSY,

VIENNA FOR ELLIS, PASSTREASURY AND FRB

EO 11652: NA

TAGS: EFIN SZ

SUBJ: SWISS FINANCIAL REVIEW: WEEK OF JUNE 5-11

1. SUMMARY: INTRODUCTION OF VALUE ADDED TAX WAS DEFEATED
IN JUN 12 REFERENDUM. DOLLAR RATE ROSE SLIGHTLY IN NERVOUS MARKET.
GOLD PRICE FELL TO 139. MONEY MARKET INTEREST RATES
ROSE. TEST OF ACCEPTANCE NEW SWISS NATIONAL BANK AGREEMENT
WITH BANKS ON CONDITIONS FOR ACCEPTING NEW ACCOUNTS AND BANK
SECRECY AS SUFFICIENT INITIAL REACTION CHIASSO AFFAIR WILL
BE PARLIAMENTARY APPRAISAL ADEQUACY MEASURES TAKEN. NEW BANK
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EXAMINING UNIT UNDER CONSIDERATION WHICH MAY BE INDEPENDENT
CORPORATION WHOSE STOCK IS HELD BY SNB. TOTAL SWISS FOREIGN
ASSETS END 1976 WERE REPORTED TO BE SF 306.2 BILLION. END
SUMMARY.

2. FOREIGN EXCHANGE AND GOLD: MARKETS WERE ACTIVE AND
NERVOUS. DOLLAR RATE AGAINST SWISS FRANC FLUCTUATED SLIFHTLY

UPWARD BY CLOSING. THREE-MONTH EURO-FRANC RATE, WHICH HAD RISEN TO 4 PERCENT JUN 3, SLIPPED TO 3.5 PERCENT JUN 9. GOLD PRICE DECLINED FURTHER. HOWEVER, DEALERS REPORTEDLY BELIEVE LONG-TERM TREND WILL SHOW FIRMER PRICE AND ARE RECOMMENDING GOLD AS PART OF PORTFOLIO INVESTMENTS. RATES FOLLOW:

	6/6 (OPNE)	6/10 (CLOSE)
SPOT DOLLAR	2.4855	2.4914
FORWARD DISCOUNTS (PERCENT PER ANNUM)		
ONE MONTH	1.74	1.69
2 MONTHS	1.86	1.97
3 MONTHS	1.88	1.96
6 MONTHS	1.95	2.14
12 MONTHS	2.17	2.33
SF/DM	105.47	105.63
GOLD	142.25	139.75

3. CAPITAL AND MONEY MARKETS: TIGHT LIQUIDITY SITUATION EASED SOMEWHAT FOLLOWING END-MAY BANK WINDOW DRESSING. STOCK PRICES REMAINED SOMEWHAT LOWER IN LIGHT TURNOVER; SKA INDEX (1959 EQUALS 100) FELL TO NEW 1977 LOW OF 218.3 AT MID-WEEK. AVERAGE YIELD CONFEDERATION BONDS ROSE TO 4.54, REPORTEDLY IN ANTICIPATION OF INCREASED GOVT BORROWING AFTER EXPECTED VOTER REJECTION OF VALUE ADDED TAX JUN 12. DOMESTIC BORROWERS ANNOUNCED SEVERAL LOANS AT 4.5 AND 4.75 PERCENT INTEREST. KERNKRAFTWERK GOESGEN-DAENIKEN ANNOUNCED SF 60 MILLION LOAN AT 5.5 PERCENT FOR 9 YEARS. INTERAMERICAN DEVELOPMENT BANK ANNOUNCED IT WILL BORROW SF 80 MILLION AT 5.75 PERCENT. UNCLASSIFIED

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4. VALUE ADDED TAX: SWISS VOTERS JUNE 12, BY VOTE OF 1,117,318 OR 59.5 PERCENT AGAINST 760,657 OR 40.5 PERCENT, REJECTED REFERENDUM ON 10 PERCENT VALUE ADDED TAX THAT FEDERAL COUNCIL SAID WOULD HAVE ENABLED CONFEDERATION TO BALANCE ITS BUDGET BY 1979. OBSERVERS SAID OUTCOME INDICATED VOTERS ARE WILLING TO ACCEPT ANNUAL DEFICIT SPENDING OF ABOUT SF 2 BILLION OVER NEXT FEW YEARS. VOTER TURNOUT WAS 49.6 PERCENT OF ELIGIBLE VOTERS, SIXTEENTH HIGHEST TURNOUT IN 15 YEARS. ALTHOUGH GOVT, MAJOR POLITICAL PARTIES AND LABOR UNIONS CONDUCTED ACTIVE INFORMATION CAMPAIGN ON VAT INTRICACIES, PRESS REPORTED VOTERS APPEARED LARGELY GUIDED BY EMOTIONAL REACTION TO BASIC ISSUES INVOLVED. EXTREME LEFT ATTACKED VAT AS BURDEN ON WORKERS AND CALLED FOR GREATER TAX ON HIGH INCOMES. EXTREME RIGHT OPPOSED VAT AS ENCROACHMENT ON PRIVATE SECTOR BY TAKING ON MORE ACTIVITIES AND PLACING ADDITIONAL BURDENS ON PRIVATE ENTERPRISE. LABOR RANK AND FILE DID NOT FOLLOW LABOR LEADERSHIP WHICH SUPPORTED VAT TO HELP FINANCE GOVT SOCIAL PROGRAMS. VOTERS APPARENTLY IGNORED EXCEPTIONS FOR

VAT FOR SMALL BUSINESSES WITH LOW SALES TURNOVER, AND THAT
OFF-SETTING HIGHER DEDUCTIONS AND EXCLUSIONS ON DIRECT

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TAX WOULD HAVE REDUCED VAT IMPACT TO SF 250 PER YEAR FOR
AVERAGE FAMILY OF FOUR. WHILE IT IS NOT YET CLEAR WHAT
ALTERNATIVE MEASURES GOVT WILL ADOPT TO BALANCE BUDGET,
FEDERAL COUNCILOR AND FINANCE MINISTER CHEVALLAZ HAS SAID
THAT THE GOVT WILL PRESENT NEW PROPOSALS THIS SUMMER. HE
WENT ON TO DESCRIBE THE DEMOCRATIC REFERENDUM AS "A CEMETERY
FOR TAX PROPOSALS". IT WOULD APPEAR THAT VOTERS WANT AN OPEN
NATIONAL DEBATE IN ORDER TO DEVELOP A CONSENSUS ON WHAT
ACTIVITIES GOVT SHOULD OR SHOULD NOT TAKE ON, AND TO SEE WHAT
SPENDING CUTS, HOWEVER SMALL, COULD BE MADE. IN CONTRAST TO
VOTE ON VAT, SWISS APPROVED PROPOSALS ON TAX HARMONIZATION BY
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61.3 PERCENT FOR, 38.7 PERCENT AGAINST. A MORE DETAILED ANALYSIS OF THIS MEASURE WILL FOLLOW BY SEPTTEL.

5. NEW BANKING AGREEMENT: PRESS COMMENTED ON NEW SNB AGREEMENT WITH BANKS ON CONDITIONS OF ACCEPTING DEPOSITS AND BANK SECRECY (BERN 2520) HAS BEEN FAVORABLE. PRESS STRESSED THAT AGREEMENT INVOLVED NOTHING NEW BUT BANKS HOPE IT WILL RELIEVE PRESSURE FOR GREATER GOVT CONTROL OF BANKS. IT REMAINS TO BE SEEN WHAT PARLIAMENT WILL DO NOW, AND WHETHER SOCIALIST PARTY WILL PURSUE ITS PLAN TO LAUNCH INITIATIVE ON BANK CONTROL. MOST BIGGER BANKS SAID AGREEMENT SHOULD HAVE BENEFICIAL IMPACT. THEY DISCOUNTED POSSIBLE ADVERSE IMPACT ON DEPOSITS BUT SAID THEY HAVE JUST BEGUN TO BRIEF STAFFS AND REVIEW OF EXISTING ACCOUNTS. BANKERS STRESSED IMPORTANCE OF STRONG PENALTY PROVISIONS FOR HEALTHIER AND STRONGER SWISS BANKING. SMALLER PRIVATE BANKS WERE RESERVED ON NEW AGREEMENT, NOT HIDING FACT THEY STRONGLY OPPOSED IT. THEY SAID SOME PROVISIONS WERE TOO VAGUE AND OPEN TO STRICT INTERPRETATIONS THAT COULD SERIOUSLY LIMIT ABILITY TO ENTER CERTAIN CONTRACTUAL AGREEMENTS.

6. BANK EXAMINING UNIT: PRESS REPORTED THAT GENERAL OUTLINE THAT HAS EMERGED OF POSSIBLE INDEPENDENT BANK EXAMINING UNIT UNDER SNB CONTROL. UNIT WOULD BE SET UP AS INDEPENDENT CORPORATION OF AUDITORS WITH STOCK ENTIRELY OWNED BY SNB. THIS WOULD MAKE IT MORE INDEPENDENT THAN EXISTING LARGE PRIVATE AUDITING FIRMS WHOSE STOCK IS PRIMARILY OWNED BY LARGEST BANKS WHICH THEY AUDIT. INITIAL REPORTS INDICATE THERE WOULD BE NO POLITICAL OPPOSITION TO SUCH ARRANGEMENT.

7. SWISS FOREIGN ASSETS: PRESS AND UNION BANK OF SWITZERLAND REPORTED THAT TOTAL SWISS FOREIGN ASSETS (PRIMARILY DIRECT INVESTMENTS AND LOANS) END 1976 WERE SF 306.2 BILLION, MORE THAN DOUBLE SWISS GNP OF SF 147.9 BILLION. THIS REPRESENTS AN INCREASE OF SF 33.2 BILLION OR 12 PERCENT FROM 1975. LIABILITIES (CHIEFLY FOREIGN INVESTMENTS IN SWITZERLAND) CAME UNCLASSIFIED

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TO SF 12.7 PERCENT FROM 1975 DIRECT SWISS OVERSEAS INVESTMENT WAS REPORTED AT SF 45.5 BILLION IN 1976 WHILE FOREIGN DIRECT INVESTMENT IN SWITZERLAND WAS SF 11.5 BILLION. DAVIS

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01-Jan-1994 12:00:00 am
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
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Enclosure: n/a
Executive Order: N/A
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Original Handling Restrictions: n/a
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Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 2167706
Secure: OPEN
Status: NATIVE
Subject: SWISS FINANCIAL REVIEW: WEEK OF JUNE 5-11
TAGS: EFIN, SZ
To: STATE
Type: TE
vdkgvwkey: odb://SAS/SAS.dbo.SAS_Docs/4cacc97d-c288-dd11-92da-001cc4696bcc
Review Markings:
Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
22 May 2009
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 22 May 2009